

# **WHITWORTH UNIVERSITY**

## **CONSOLIDATED FINANCIAL STATEMENTS** Including Independent Auditors' Report

As of and for the Years Ended June 30, 2014 and 2013

# WHITWORTH UNIVERSITY

## TABLE OF CONTENTS

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Independent Auditors' Report	1 - 2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4 - 5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 31

## INDEPENDENT AUDITORS' REPORT

To the President and Board of Trustees  
Whitworth University  
Spokane, Washington

We have audited the accompanying consolidated financial statements of Whitworth University and subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Whitworth University and subsidiaries as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
October 2, 2014

# WHITWORTH UNIVERSITY

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2014 and 2013

	<b>ASSETS</b>	
	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 5,861,721	\$ 4,329,189
Receivables		
Student accounts, net of allowance for doubtful accounts of \$213,000 in 2014 and \$186,000 in 2013	917,409	654,648
Contributions, net	7,182,385	4,703,237
Other	1,034,298	1,286,888
Other assets	1,110,834	630,574
Student loans receivable, net	4,132,879	4,143,027
Long-term investments	139,679,559	120,438,842
Deposits held by trustee	7,041,144	10,287,518
Deferred debt acquisition costs	715,729	742,861
Land, buildings and equipment, net	107,962,942	110,343,177
Assets held in trust by others	<u>20,436,512</u>	<u>19,225,251</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 296,075,412</u></b>	<b><u>\$ 276,785,212</u></b>
	<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>		
Accounts payable and other liabilities	\$ 1,974,453	\$ 2,738,012
Accrued payroll and related benefits	6,764,798	6,376,721
Student deposits	2,007,974	1,633,061
Deferred revenue	2,202,164	2,115,129
Asset retirement obligations	891,272	919,500
Accrued interest payable	1,058,281	1,070,150
Long-term debt	79,109,279	80,342,931
Annuities payable	10,878,773	10,057,450
Federal student loan funds	<u>3,576,528</u>	<u>3,587,212</u>
Total Liabilities	<u>108,463,522</u>	<u>108,840,166</u>
<b>NET ASSETS</b>		
Unrestricted	60,799,299	59,376,963
Temporarily restricted	48,200,022	36,212,583
Permanently restricted	<u>78,612,569</u>	<u>72,355,500</u>
Total Net Assets	<u>187,611,890</u>	<u>167,945,046</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 296,075,412</u></b>	<b><u>\$ 276,785,212</u></b>

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014  
With Comparative Totals for 2013

	2014			2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
<b>OPERATING REVENUES</b>				
Tuition and fees	\$ 86,729,045			\$ 86,729,045
Less: Scholarships and grants	(37,057,643)			(37,057,643)
Net tuition and fees	49,671,402			48,505,445
Government grants	987,998			903,924
Contributions and gifts	2,304,908	\$ 1,407,233		2,489,033
Long-term investment income and gains allocated for operations	415,656	2,563,993		2,710,995
Other sources	1,571,533	33,005		1,388,222
Investment income	1,627,817			1,479,468
Net gains (losses) on investments	(27,447)			12,940
Auxiliary enterprises revenues	12,595,272			12,814,621
	69,147,139	4,004,231		70,304,648
Net assets released from restrictions - operating	3,149,159	(3,149,159)		
Total Operating Revenues, Gains and Other Support	72,296,298	855,072		73,151,370
				70,304,648
<b>OPERATING EXPENSES</b>				
Program expenses				
Instruction	30,086,642			28,750,775
Public service	833,400			679,205
Academic support	7,230,242			6,975,600
Student services	12,793,453			11,380,225
Auxiliary enterprises	11,175,159			11,868,537
Support expenses				
Institutional support	12,198,860			12,105,833
Allocable expenses				
Operation and maintenance of plant	6,221,026			5,770,355
Interest	4,017,473			3,510,280
Unfunded depreciation, amortization, and accretion	7,400,010			6,978,703
Less: Allocated expenses	(17,638,509)			(16,259,338)
Total Operating Expenses	74,317,756			71,760,175
<b>Change in Net Assets from Operating Activities</b>	<b>(2,021,458)</b>	<b>855,072</b>		<b>(1,166,386)</b>
				<b>(1,455,527)</b>
<b>NONOPERATING ACTIVITIES</b>				
Long-term investment income and gains, net of amount allocated for operations	1,750,270	10,259,540		6,895,727
Change in value of assets held in trust by others		61,919	\$ 1,181,581	845,805
Contributions and gifts	305,150	516,358	4,351,984	4,186,955
Adjustment to actuarial liability for annuities payable	334,876	1,097,271	708,739	990,062
Other sources	249,095	1,682	14,765	176,878
Net assets released from restrictions - nonoperating	804,403	(804,403)		
<b>Change in Net Assets from Nonoperating Activities</b>	<b>3,443,794</b>	<b>11,132,367</b>	<b>6,257,069</b>	<b>13,095,427</b>
<b>Change in Net Assets</b>	<b>1,422,336</b>	<b>11,987,439</b>	<b>6,257,069</b>	<b>11,639,900</b>
Net Assets - Beginning of Year	59,376,963	36,212,583	72,355,500	156,305,146
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 60,799,299</b>	<b>\$ 48,200,022</b>	<b>\$ 78,612,569</b>	<b>\$ 167,945,046</b>

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
<b>OPERATING REVENUES</b>				
Tuition and fees	\$ 82,417,501			\$ 82,417,501
Less: Scholarships and grants	(33,912,056)			(33,912,056)
Net tuition and fees	48,505,445			48,505,445
Government grants	903,924			903,924
Contributions and gifts	2,192,595	\$ 296,438		2,489,033
Long-term investment income and gains allocated for operations	401,074	2,309,921		2,710,995
Other sources	1,361,517	26,705		1,388,222
Investment income	1,479,468			1,479,468
Net gains on investments	12,940			12,940
Auxiliary enterprises revenues	12,814,621			12,814,621
Net assets released from restrictions - operating	67,671,584	2,633,064		70,304,648
	2,680,651	(2,680,651)		
Total Operating Revenues, Gains and Other Support	70,352,235	(47,587)		70,304,648
<b>OPERATING EXPENSES</b>				
Program expenses				
Instruction	28,750,775			28,750,775
Public service	679,205			679,205
Academic support	6,975,600			6,975,600
Student services	11,380,225			11,380,225
Auxiliary enterprises	11,868,537			11,868,537
Support expenses				
Institutional support	12,105,833			12,105,833
Allocable expenses				
Operation and maintenance of plant	5,770,355			5,770,355
Interest	3,510,280			3,510,280
Unfunded depreciation, amortization, and accretion	6,978,703			6,978,703
Less: Allocated expenses	(16,259,338)			(16,259,338)
Total Operating Expenses	71,760,175			71,760,175
<b>Change in Net Assets from Operating Activities</b>	<b>(1,407,940)</b>	<b>(47,587)</b>		<b>(1,455,527)</b>
<b>NONOPERATING ACTIVITIES</b>				
Long-term investment income and gains,				
net of amount allocated for operations	960,252	5,935,475		6,895,727
Change in value of assets held in trust by others		29,118	\$ 816,687	845,805
Contributions and gifts	1,423,429	1,678,362	1,085,164	4,186,955
Adjustment to actuarial liability for annuities payable	90,689	10,536	888,837	990,062
Other sources	145,754		31,124	176,878
Redesignation of prior year gifts		1,624,468	(1,624,468)	
Net assets released from restrictions - nonoperating	29,799	(29,799)		
<b>Change in Net Assets from Nonoperating Activities</b>	<b>2,649,923</b>	<b>9,248,160</b>	<b>1,197,344</b>	<b>13,095,427</b>
<b>Change in Net Assets</b>	<b>1,241,983</b>	<b>9,200,573</b>	<b>1,197,344</b>	<b>11,639,900</b>
Net Assets - Beginning of Year	58,134,980	27,012,010	71,158,156	156,305,146
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 59,376,963</b>	<b>\$ 36,212,583</b>	<b>\$ 72,355,500</b>	<b>\$ 167,945,046</b>

# WHITWORTH UNIVERSITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2014 and 2013

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 19,666,844	\$ 11,639,900
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion	7,400,010	6,978,703
Adjustment to actuarial liability for annuities payable	(2,140,886)	(990,062)
Net gains on investments	(13,311,779)	(7,942,214)
Change in value of assets held in trust by others	(1,243,500)	(845,805)
Change in allowance on student accounts receivable	27,000	(14,000)
Loan cancellations, assignments and write-offs	52,989	8,171
Change in assets		
Student accounts receivable	(289,761)	101,945
Other receivables	252,590	(520,693)
Other assets	(480,260)	409,558
Contributions receivable for operations	30,305	(226,764)
Change in liabilities		
Accounts payable, other liabilities and accrued interest payable	(557,455)	(206,954)
Accrued payroll and related benefits	388,077	440,989
Student deposits	374,913	186,053
Deferred revenue	87,035	360,084
Contributions restricted for plant and long-term investment	(5,173,492)	(4,186,955)
Net Cash Flows From Operating Activities	5,082,630	5,191,956
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Student loans receivable		
Principal repayments	729,942	729,851
Advances	(772,784)	(684,071)
Purchases of land, buildings and equipment	(5,317,795)	(13,272,072)
Drawdowns of deposits held by trustee	3,246,374	8,784,499
Proceeds from sales of long-term investments	40,200,205	25,729,424
Purchases of long-term investments	(42,101,706)	(30,427,069)
Net Cash Flows From Investing Activities	(4,015,764)	(9,139,438)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions received restricted for plant and long-term investment	2,664,037	5,084,396
Payments on long-term debt	(1,250,000)	(960,000)
Payments to annuitants	(937,687)	(905,553)
Net change in federal student loan funds	(10,684)	4,593
Net Cash Flows From Financing Activities	465,666	3,223,436
 <b>Net Change in Cash and Cash Equivalents</b>	1,532,532	(724,046)
 CASH AND CASH EQUIVALENTS - Beginning of Year	4,329,189	5,053,235
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 5,861,721	\$ 4,329,189

# WHITWORTH UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2014 and 2013

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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Whitworth University, a higher education institution founded in 1890, was incorporated in 1972 as a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code and is located in Spokane, Washington. Whitworth University's primary source of revenue comes from tuition. Other sources of revenue include room and board, gifts, and investment earnings. The financial statements have been prepared on the accrual basis of accounting. The more significant accounting policies are summarized below:

**Consolidation** - The consolidated financial statements include the accounts of Whitworth University, Whitworth Costa Rica Limited, and The Whitworth Foundation (the Foundation), collectively referred to as the "University." The purpose of Whitworth Costa Rica Limited is to provide educational services to Whitworth University students at a campus located in Costa Rica and the purpose of the Foundation is to seek out and obtain deferred gifts to support Whitworth University. See Note 21 for summarized financial information related to these entities. All transactions and balances between the entities have been eliminated in the consolidated financial statements.

**Net Asset Classification** - For the purposes of financial reporting, the University classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

**Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

**Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time.

**Unrestricted Net Assets** - Net assets not subject to donor-imposed stipulations.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

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In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets. Gains and losses on investments of endowment funds created by a board designation of unrestricted funds are classified as changes in unrestricted net assets.

**Tuition and Fees and Auxiliary Revenues** - Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

**Cash and Cash Equivalents** - The University considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents do not include investments the University has both the ability and intent to hold long-term. Certain cash held by the University is restricted for the Perkins Loan Fund.

**Student Accounts Receivables** - Student accounts receivables include amounts due to the University for tuition and fees. An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are expensed when deemed uncollectible. Recoveries of student accounts previously written-off are recorded when received. Receivables are generally unsecured.

**Deposits Held by Trustee** - Deposits held by trustee include amounts restricted for construction and debt service as required by the trust indentures. The assets are comprised of cash equivalents and government bonds.

**Deferred Debt Acquisition Costs** - Certain costs related to the issuance of debt have been deferred and are being amortized over the term of the debt issue. Accumulated amortization approximated \$112,000 and \$84,000 at June 30, 2014 and 2013, respectively.

**Land, Buildings and Equipment** - Land, buildings, improvements and equipment are recorded at cost at the date of acquisition or at fair value at the date of gift, less accumulated depreciation. Normal repair and maintenance expenses are charged to operations as incurred. The University capitalizes land, buildings, and equipment expenditures in excess of \$5,000. Title to land and buildings is principally in the name of the University.

Buildings, improvements, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	30 to 40 years
Building and other improvements	5 to 30 years
Equipment	5 to 8 years

Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts and the resulting gains or losses are reflected in the statement of activities.

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

**Impairment of Long-Lived Assets** - The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate to the carrying amount. If the operation is determined to be unable to recover the carrying amount of its assets, then assets are written down first, followed by other long-lived assets of the operation to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. As of June 30, 2014 and 2013, there were no impairment losses recognized for long-lived assets.

**Assets Held in Trust by Others** - The University has been designated as beneficiary of several trusts managed by outside foundations. Some of these trusts generate income that is distributed to the University on a periodic basis. Those trusts are generally invested in marketable securities, real estate, or contracts collateralized by real estate.

**Deferred Revenue** - Certain revenue related to summer and fall courses and programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses and programs prior to the start of the course or program.

**Asset Retirement Obligations** - The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities. The University reviews its estimates annually and adjusts the recorded liability as needed.

Substantially all of the University's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the University's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The University utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

Changes in the accrual for asset retirement obligations during the years ended June 30, 2014 and 2013 are as follows:

	2014	2013
Balance, Beginning of the year	\$ 919,500	\$ 866,385
Abatements	(62,800)	
Accretion expense	34,572	53,115
Balance, End of the year	\$ 891,272	\$ 919,500

**Federal Student Loan Funds** - Funds provided by the United States government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

# WHITWORTH UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2014 and 2013

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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**Income Tax Status** - The Internal Revenue Service has determined that the University and the Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, any unrelated business income may be subject to taxation. Donations to the University and Foundation are tax deductible. Whitworth Costa Rica Limited is a taxable corporation for purposes of Costa Rican income tax law.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of June 30, 2014 and 2013. The University's tax returns are subject to review and examination by federal authorities. The tax returns for fiscal years 2011 and thereafter are open to examination by federal authorities.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fund-Raising and Advertising Expenses** - Fund-raising expenses totaled \$3,120,000 and \$3,085,000 for the years ended June 30, 2014 and 2013, respectively. Advertising costs are expensed when incurred.

**Functional Allocation of Expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

**Reclassifications** - Certain amounts appearing in the 2013 financial statements have been reclassified to conform with the 2014 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

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### NOTE 2 - FAIR VALUE MEASUREMENTS

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**Financial Instruments** - The carrying amounts of cash and cash equivalents (money market funds and certificates of deposit), student accounts receivable, other receivables, accounts payable and student deposits approximate fair value because of the short term nature of these financial instruments.

The fair value of contributions receivable (pledges) is based on discounted cash flow methodology using discount rates consistent with the expected maturities of the pledges, adjusted for consideration of the donor's credit. The fair value of contributions receivable approximates carrying value and would be considered Level 3 in the fair value hierarchy.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

# WHITWORTH UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2014 and 2013

### NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)

The fair value of long-term debt is estimated using quoted prices for similar instruments and discounted cash flow analyses using current borrowing rates for similar types of borrowing arrangements, adjusted for the University's credit risk. The estimated fair value of long-term debt approximates \$85,200,000 and \$81,100,000 at June 30, 2014 and 2013, respectively. The valuation for the estimated fair value of long-term debt would be considered Level 2 on the fair value hierarchy.

The fair value of annuities payable related to split interest agreements is based on a discounted cash flow methodology using assumptions about estimated return on invested assets during the term of the agreement, the contractual payment obligations of the agreement, discount rates that are commensurate with the risks involved, and life expectancies published in the mortality tables. The fair value of the annuities payable approximates carrying value. The fair value for annuities payable related to gift annuities and annuity trusts would be considered Level 2 in the fair value hierarchy. The fair value of annuities payable related to unitrusts would be considered Level 3 in the fair value hierarchy.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift.

Investments in real estate are carried at lower of cost or market.

**Fair Value Hierarchy** - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

#### **Valuation Techniques and Inputs**

Level 1 - Level 1 assets include:

- > Investments in equity securities for which quoted prices are readily available.
- > Investments in certain fixed income securities (U.S. Treasury notes) as they trade with sufficient frequency and volume to enable the University to obtain pricing information on an ongoing basis.
- > Investments in mutual funds for which quoted prices are readily available.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

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**NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)**

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Level 2 - Level 2 assets include:

- > Investments in certain fixed income securities (corporate bonds and notes) for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.
- > Equity index fund for which a quoted price is not readily available. The fair value is estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Level 3 - Level 3 assets include:

- > Investments in funds of funds (hedge funds, commodities, real assets and limited partnerships) and private equity funds for which quoted prices are not readily available and the funds cannot be redeemed within a short time. The University has estimated the fair value of these funds by using the net asset value ("NAV") provided by the investee as of December 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through June 30 if the NAV was based on a previous quarter.
- > Assets held in trust by others for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the University has an irrevocable right to receive the income earned from the trusts' assets, the fair value of the University's beneficial interest is estimated to approximate the fair value of the trusts' assets.

There have been no changes in the techniques and inputs used as of June 30, 2014 and 2013.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)**

The following tables present information about the University's assets measured at fair value on a recurring basis as of June 30, 2014 based upon the three-level hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Equity securities	\$ 1,235,183	\$ 1,235,183		
Fixed income securities	6,591,144	4,772,255	\$ 1,818,889	
Mutual funds				
Domestic equity	22,794,130	22,794,130		
Domestic fixed income	37,043,299	37,043,299		
International equity	29,044,638	29,044,638		
International fixed income	3,638,363	3,638,363		
Equity index fund	9,417,360		9,417,360	
Funds of funds				
Hedge funds	8,039,454			\$ 8,039,454
Commodities	2,743,898			2,743,898
Real assets	9,161,109			9,161,109
Limited partnerships	5,239,015			5,239,015
Private equity funds	4,381,326			4,381,326
Assets held in trust by others	<u>20,436,512</u>			<u>20,436,512</u>
 Total	 <u>\$ 159,765,431</u>	 <u>\$ 98,527,868</u>	 <u>\$ 11,236,249</u>	 <u>\$ 50,001,314</u>

The following tables present information about the University's assets measured at fair value on a recurring basis as of June 30, 2013 based upon the three-level hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Equity securities	\$ 1,085,564	\$ 1,085,564		
Fixed income securities	7,415,236	5,274,944	\$ 2,140,292	
Mutual funds				
Domestic equity	20,819,622	20,819,622		
Domestic fixed income	29,930,047	29,930,047		
International equity	24,063,240	24,063,240		
International fixed income	3,318,968	3,318,968		
Equity index fund	8,245,478		8,245,478	
Funds of funds				
Hedge funds	6,510,474			\$ 6,510,474
Commodities	2,455,992			2,455,992
Real assets	8,283,224			8,283,224
Limited partnerships	3,086,605			3,086,605
Private equity funds	4,329,522			4,329,522
Assets held in trust by others	<u>19,225,251</u>			<u>19,225,251</u>
 Total	 <u>\$ 138,769,223</u>	 <u>\$ 84,492,385</u>	 <u>\$ 10,385,770</u>	 <u>\$ 43,891,068</u>

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)**

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2014:

	Balances June 30, 2013	Realized and unrealized gains (losses)	Purchases and additions	Sales and distributions	Net transfers in (out) of Level 3	Balances June 30, 2014
<b>Assets</b>						
Funds of funds						
Hedge funds	\$ 6,510,474	\$ 167,676	\$ 5,009,363	\$ (3,648,059)		\$ 8,039,454
Commodities	2,455,992	195,519	5,246,991	(5,154,604)		2,743,898
Real assets	8,283,224	864,825	456,754	(443,694)		9,161,109
Limited partnerships	3,086,605	707,036	2,410,089	(964,715)		5,239,015
Private equity funds	4,329,522	773,757	334,448	(1,056,401)		4,381,326
Assets held in trust by others	19,225,251	1,243,500		(32,239)		20,436,512
<b>Total</b>	<b>\$ 43,891,068</b>	<b>\$ 3,952,313</b>	<b>\$ 13,457,645</b>	<b>\$ (11,299,712)</b>	<b>\$ -</b>	<b>\$ 50,001,314</b>

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at June 30, 2014. \$ 3,802,384

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2013:

	Balances June 30, 2012	Realized and unrealized gains (losses)	Purchases and additions	Sales and distributions	Net transfers in (out) of Level 3	Balances June 30, 2013
<b>Assets</b>						
Funds of funds						
Hedge funds	\$ 6,199,145	\$ 311,329				\$ 6,510,474
Commodities	2,432,106	(175,483)	\$ 199,369			2,455,992
Real assets	6,942,612	750,250	822,917	\$ (232,555)		8,283,224
Limited partnerships	3,540,449	214,843	59,468	(728,155)		3,086,605
Private equity funds	4,386,642	391,705	707,759	(1,156,584)		4,329,522
Assets held in trust by others	18,337,346	846,209	41,696			19,225,251
<b>Total</b>	<b>\$ 41,838,300</b>	<b>\$ 2,338,853</b>	<b>\$ 1,831,209</b>	<b>\$ (2,117,294)</b>	<b>\$ -</b>	<b>\$ 43,891,068</b>

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at June 30, 2013. \$ 2,338,853

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)**

The University uses the net asset value (“NAV”) as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value; and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of June 30, 2014:

	Funds of Funds				
	Hedge Funds	Commodities	Real Assets	Limited Partnerships	Private Equity Funds
Fair value, June 30, 2014	\$8,039,054	\$2,743,898	\$9,161,109	\$5,239,015	\$4,381,326
Significant Investment Strategy	Low correlation to standard markets indexes	Low correlation to standard markets indexes	Fund of funds vehicle through which clients can invest in private equity real estate fund or income producing real properties	The fund of funds vehicle expects to invest in partnerships or other commingled funds with portfolio manager that invest in high yield securities, public and private debt, bank loans, trade claims, equity or other distressed obligations	Direct investment in private companies to create gains
Remaining Life	Indefinite	Indefinite	Minimum of 10 years	Minimum of 16 years	7 years
Dollar Amount of Unfunded Commitments	Open	Open	\$1,174,939	\$490,935	\$1,576,008
Timing to Draw Down Commitments	N.A.	N.A.	3 to 5 years	3 to 5 years	3 to 5 years
Redemption Terms	One year lock-up period; after that quarterly or annually	Quarterly	With 90 days advance notice	Not Allowed	Not Allowed
Redemption Restrictions	N.A.	N.A.	As liquidity becomes available after redemption request	N.A.	N.A.
Redemption Restrictions in Place at Year End	N.A.	N.A.	N.A.	N.A.	N.A.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES**

Permanently restricted net assets consist of the following at June 30:

	2014	2013
Endowment funds	\$ 71,550,960	\$ 66,221,527
Student loan funds	1,071,220	1,056,451
Annuity, life income and similar funds	5,990,389	5,077,522
	\$ 78,612,569	\$ 72,355,500

Temporarily restricted net assets consist of the following at June 30:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	\$ 1,329,730	\$ 474,658
Acquisition of buildings and equipment	5,157,402	3,500,988
Earnings not yet appropriated for spending	40,360,787	30,348,444
Annuity, life income and similar funds	1,352,103	1,888,493
	\$ 48,200,022	\$ 36,212,583

Unrestricted net assets consist of the following at June 30:

For current operations	\$ 6,740,874	\$ 6,600,334
Plant	37,669,270	38,932,366
Endowment funds - board designated	14,023,340	11,510,968
Annuity, life income and similar funds	2,365,815	2,333,295
	\$ 60,799,299	\$ 59,376,963

**NOTE 4 - NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows during the years ended June 30:

	2014	2013
Scholarships, instruction and other departmental support	\$ 3,953,562	\$ 2,680,651
Acquisition of land, building and equipment		29,799
	\$ 3,953,562	\$ 2,710,450

These assets were reclassified to unrestricted net assets.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 5 - CONTRIBUTIONS RECEIVABLE**

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category. Receivables are recorded net of a discount to reflect the estimated present value of the expected future cash flows to be received. Contributions receivable include the following unconditional promises to give at June 30:

	2014	2013
Unrestricted - completed construction projects	\$ 993,149	\$ 2,163,446
Temporarily restricted		
Current scholarships, departmental programs and activities	247,526	278,483
Building construction and remodeling	3,801,441	2,809,893
Permanently restricted - endowment for scholarships and departmental programs and activities	2,922,149	183,035
Gross unconditional promises to give	7,964,265	5,434,857
Less: Allowance for uncollectible promises	(400,000)	(400,000)
Less: Unamortized discount	(381,880)	(331,620)
Net contributions receivable	\$ 7,182,385	\$ 4,703,237
Amounts due in:		
Within one year	\$ 3,580,939	
One to five years	4,366,659	
Greater than five years	16,667	
	\$ 7,964,265	

Promises due in more than one year were discounted at rates ranging between 2.3% and 6% at June 30, 2014 and 2013. Promises due in less than one year were not discounted.

Amounts due from members of the Board of Trustees were approximately \$4,875,000 and \$4,313,000 as of June 30, 2014 and 2013, respectively. For the years ended June 30, 2014 and 2013, contributions (new pledges and cash gifts) from members of the Board of Trustees were approximately \$1,725,000 and \$2,948,000, respectively.

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 6 - LONG TERM INVESTMENTS AND DEPOSITS HELD BY TRUSTEE**

The following summarizes the University's investments and deposits held by trustee at June 30:

	2014	2013
At fair value		
Equity securities	\$ 1,235,183	\$ 1,085,564
Fixed income securities	6,591,144	7,415,236
Mutual funds		
Domestic equity	22,794,130	20,819,622
Domestic fixed income	37,043,299	29,930,047
International equity	29,044,638	24,063,240
International fixed income	3,638,363	3,318,968
Other investments		
Equity index fund	9,417,360	8,245,478
Funds of funds		
Hedge funds	8,039,454	6,510,474
Commodities	2,743,898	2,455,992
Real assets	9,161,109	8,283,224
Limited partnerships	5,239,015	3,086,605
Private equity funds	4,381,326	4,329,522
At cost		
Cash and short-term investments	2,990,003	6,539,879
Notes receivable		498,000
Real estate	1,045,400	885,600
Annuity contracts	7,413	7,777
Single premium life insurance policy	143,546	140,004
Cash surrender value of life insurance policies	3,205,422	3,111,128
	\$ 146,720,703	\$ 130,726,360

Long-term investments and deposits held by trustee are allocated as follows at June 30:

Long-term investments	\$ 139,679,559	\$ 120,438,842
Deposits held by trustee (Note 10)	7,041,144	10,287,518
	\$ 146,720,703	\$ 130,726,360

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Through the University's investment in other investments, the University is indirectly involved in investment activities such as securities lending, trading in futures, forward contracts and other derivative products. Derivatives are used to adjust portfolio risk exposure. While these instruments may contain varying degrees of risk, the University's risk with respect to such transactions is limited to its respective capital balance in each investment. These interests have varying degrees of liquidity.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 7 - LIFE INSURANCE POLICIES**

The University and Foundation have received gifts of several life insurance policies and are designated as both the owner and beneficiary of these life insurance policies. At June 30, 2014 and 2013, the insurance coverage aggregated approximately \$6,418,000 and \$6,415,000, respectively, and the cash surrender value totaled \$3,205,422 and \$3,111,128, respectively. Premium payments are required to be made by the donor or the University to continue coverage to the maturity dates.

**NOTE 8 - CONSTRUCTION IN PROGRESS**

At June 30, 2014, the following projects were in progress:

	<u>Costs to Date</u>	<u>Estimated Completion Date</u>	<u>Funding Source</u>
Residence hall	\$ 361,846	Unknown	Debt
Music building	428,340	9/1/2017	Gifts
Ground improvements	930,258	9/1/2014	Debt
Various other campus projects	<u>427,988</u>	9/30/2014	Operations
	<u>\$ 2,148,432</u>		

Remaining commitments on signed construction contracts approximate \$800,000 as of June 30, 2014.

**NOTE 9 - LAND, BUILDINGS AND EQUIPMENT**

Land, buildings and equipment and the related accumulated depreciation amounts are as follows at June 30, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Land	\$ 5,786,315	\$ -	\$ -	\$ 5,786,315
Buildings	121,944,579	6,926,982	(135,424)	128,736,137
Buildings and other improvements	21,872,990	1,580,598	(224,623)	23,228,965
Equipment	17,243,992	1,660,773	(1,034,476)	17,870,289
Construction in progress	<u>7,217,957</u>	<u>1,739,675</u>	<u>(6,809,200)</u>	<u>2,148,432</u>
	<u>174,065,833</u>	<u>11,908,028</u>	<u>(8,203,723)</u>	<u>177,770,138</u>
Less: Accumulated Depreciation for:				
Buildings	(44,434,770)	(4,437,810)	40,419	(48,832,161)
Buildings and other improvements	(9,006,292)	(1,102,230)	224,623	(9,883,899)
Equipment	<u>(10,281,594)</u>	<u>(1,844,018)</u>	<u>1,034,476</u>	<u>(11,091,136)</u>
Total Accumulated Depreciation	<u>(63,722,656)</u>	<u>(7,384,058)</u>	<u>1,299,518</u>	<u>(69,807,196)</u>
	<u>\$ 110,343,177</u>	<u>\$ 4,523,970</u>	<u>\$ (6,904,205)</u>	<u>\$ 107,962,942</u>

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 9 - LAND, BUILDINGS AND EQUIPMENT (cont.)**

Land, buildings and equipment and the related accumulated depreciation amounts are as follows at June 30, 2013:

	Beginning Balance	Additions	Deductions	Ending Balance
Land	\$ 5,596,315	\$ 225,000	\$ (35,000)	\$ 5,786,315
Buildings	114,873,482	7,149,709	(78,612)	121,944,579
Buildings and other improvements	18,942,910	3,261,264	(331,184)	21,872,990
Equipment	16,123,580	1,726,935	(606,523)	17,243,992
Construction in progress	6,831,585	6,162,856	(5,776,484)	7,217,957
	<u>162,367,872</u>	<u>18,525,764</u>	<u>(6,827,803)</u>	<u>174,065,833</u>
Less: Accumulated Depreciation for:				
Buildings	(40,332,371)	(4,181,011)	78,612	(44,434,770)
Buildings and other improvements	(8,407,499)	(929,977)	331,184	(9,006,292)
Equipment	(9,116,996)	(1,771,121)	606,523	(10,281,594)
Total Accumulated Depreciation	<u>(57,856,866)</u>	<u>(6,882,109)</u>	<u>1,016,319</u>	<u>(63,722,656)</u>
	<u>\$ 104,511,006</u>	<u>\$ 11,643,655</u>	<u>\$ (5,811,484)</u>	<u>\$ 110,343,177</u>

The University has pledged its property of the core campus located in Spokane, Washington to the repayment of its obligations under the loan agreements for the Series 2009 and 2012 Revenue Bonds (see Note 10).

**NOTE 10 - LONG-TERM DEBT**

The University had the following long-term debt outstanding at June 30:

	2014	2013
Revenue Bonds - 2009 Series	\$ 59,955,000	\$ 60,955,000
Discount on 2009 Series Revenue Bonds	(545,190)	(568,145)
Revenue Bonds - 2012 Series	19,250,000	19,500,000
Premium on 2012 Series Revenue Bonds	449,469	456,076
	<u>\$ 79,109,279</u>	<u>\$ 80,342,931</u>

**2009 Series Revenue Bonds** - In November 2009, the University entered into a loan and security agreement with the Washington Higher Education Facilities Authority for the Authority to sell Series 2009 Revenue and Refunding Bonds in the amount of \$63,720,000 and loan the proceeds to the University. The bonds were issued for the purpose of refinancing the Series 1998, Series 2001 and Series 2006 bonds and for construction and plant improvement projects. These projects included a new residence hall at an estimated cost of approximately \$11,000,000 and a new science building at an estimated cost of approximately \$31,000,000. The outstanding principal balances on the Series 1998 bonds and Series 2001 bonds were paid in full and retired during 2010 using the proceeds of the Series 2009 Bonds. With respect to the Series 2006 bonds, proceeds from the Series 2009 bonds were placed in an escrow account held to defease the bonds in October 2027. The balance in the escrow account, which is not recorded on the University's statement of financial position, at June 30, 2014 was \$12,332,409. The outstanding balance on the Series 2006 bonds, which is not recorded on the University's statement of financial position, was \$10,725,000 at June 30, 2014.

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 10 - LONG-TERM DEBT (cont.)**

Interest is payable on the Series 2009 bonds semi-annually on each October 1 and April 1 at rates ranging from 4.000% to 5.875%. Serial bonds are payable in amounts ranging from \$1,040,000 to \$1,320,000 on October 1, 2014 through October 1, 2019. Term bonds in the amounts of \$7,705,000, \$10,025,000, \$13,290,000, and \$21,885,000 are due October 1, 2024, 2029, 2034, and 2040, respectively. The term bonds are subject to annual sinking fund payments on October 1, in the years 2020 to 2040, in amounts varying from \$1,385,000 to \$4,180,000.

**2012 Series Revenue Bonds** - In February 2012, the University entered into a loan and security agreement with the Washington Higher Education Facilities Authority for the Authority to sell Series 2012 Revenue and Refunding Bonds in the amount of \$19,500,000 and loan the proceeds to the University. The bonds were issued for the purpose of remodeling and expanding the dining facilities, building a new campus recreation center, residence hall design and furniture, various infrastructure projects, and updating certain underground steam distribution lines.

Interest is payable on the Series 2012 bonds semi-annually on each October 1 and April 1 at rates ranging from 3.000% to 5.25%. Serial bonds are payable in amounts ranging from \$260,000 to \$345,000 on October 1, 2014 through October 1, 2022. Term bonds in the amounts of \$2,000,000, \$2,565,000, \$3,310,000, and \$8,675,000 are due on October 1, 2027, 2032, 2037, and 2046, respectively. The term bonds are subject to annual sinking fund payments on October 1, in the years 2023 to 2046, in amounts varying from \$360,000 to \$1,180,000.

The University has pledged its unrestricted revenues and property of the core campus located in Spokane, Washington (see Note 9) to the repayment of its obligations under the loan agreements. As a condition of the issuance of the bonds, the University has agreed to certain covenants for the protection of bond owners, including maintaining in each fiscal year income available for debt service at least equal to 1.00 times annual debt service for such fiscal year beginning after the date of issuance of the bonds and continuing through the fiscal year that is two fiscal years after the last of the new facilities is placed in service, and 1.25 times annual debt service in each other fiscal year.

Deposits held by trustee (Note 6) include proceeds from the Series 2009 and Series 2012 bonds held for the following purposes at June 30:

	2014	2013
Debt service reserve funds	\$ 5,559,330	\$ 5,517,058
Holdback account	400,000	400,000
Construction project account	1,081,814	4,370,460
	\$ 7,041,144	\$ 10,287,518

The approximate principal and sinking fund payment requirements for all long-term debt for the five years subsequent to June 30, 2014 are:

Year Ended June 30	Principal
2015	\$ 1,300,000
2016	1,360,000
2017	1,420,000
2018	1,490,000
2019	1,555,000

## WHITWORTH UNIVERSITY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2014 and 2013

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#### **NOTE 11 - SPLIT INTEREST AGREEMENTS**

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The University's investment portfolio contains split interest agreements held by the Foundation. Under a split interest agreement, a donor makes an initial gift to a trust or directly to the Foundation, in which the University has a beneficial interest but is not the sole beneficiary. The terms of some agreements do not allow donors to revoke their gifts. The time period covered by the agreement is expressed either as a specific number of years (or in perpetuity) or as the remaining life of an individual or individuals designated by the donor. The assets are invested and administered by the Foundation and distributions are made to a beneficiary or beneficiaries during the term of the agreement. At the end of the agreement's term, the remaining assets covered by the agreement are distributed to or retained by either the University or another beneficiary or beneficiaries.

Most of the Foundation's agreements consist of irrevocable charitable remainder trusts and charitable gift annuities. Donors may impose restrictions on the University's use of all or a portion of any assets received. The Foundation recognizes a liability for estimated distributions to beneficiaries under these annuity agreements. The Foundation used the applicable discount rates in effect at the time the agreements were received by the Foundation in calculating the present values.

The University maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' laws. The total amount held in separate reserve funds was \$1,296,438 and \$1,312,393, respectively, as of June 30, 2014 and 2013.

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#### **NOTE 12 - EMPLOYEE BENEFIT PLANS**

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The University provides a defined contribution plan for the benefit of substantially all faculty and administration personnel. All costs relating to this plan are being funded currently. The University contributes a fixed percentage of each participant's salary to the plan. The University's contribution to this plan was approximately \$2,150,000 and \$2,067,000 in 2014 and 2013, respectively.

In addition to providing retirement benefits, the University pays a portion of the premiums for certain health care benefits provided to selected retired employees who reach retirement age while working for the University. Certain retired employees are required to contribute a portion of the cost of their medical insurance coverage. The University accrues for these benefits over the service lives of the employees rather than expense the cost of premiums as they are paid. The plan is unfunded, and the accrued postretirement benefit obligation is included in accrued payroll and related benefits on the statements of financial position.

The University measures postretirement plan obligations as of June 30.

The University is part of a Voluntary Employee Benefit Association (VEBA) in order to help fund the costs of healthcare for employees who have met certain eligibility requirements. The University contributed approximately \$170,000 annually to the VEBA plan in 2014 and 2013.

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 12 - EMPLOYEE BENEFIT PLANS (cont.)**

The following is a reconciliation of the benefit obligation, which is included in accrued payroll and related benefits on the statements of financial position, and the value of plan assets at June 30:

	<u>2014</u>	<u>2013</u>
<b>Change in projected benefit obligation</b>		
Benefit obligation at July 1	\$ 2,879,589	\$ 2,920,780
Interest cost	126,780	131,537
Service cost	47,195	41,516
Actuarial gain	(19,772)	(133,219)
Estimated benefits paid	<u>(84,957)</u>	<u>(81,025)</u>
 Projected benefit obligation at June 30	 <u>\$ 2,948,835</u>	 <u>\$ 2,879,589</u>
<b>Change in plan assets</b>		
Fair value of plan assets at July 1	\$ -	\$ -
Employer contribution	76,284	71,643
Participant contribution	7,840	11,572
Actual benefits paid	<u>(84,124)</u>	<u>(83,215)</u>
 Fair value of plan assets at June 30	 <u>\$ -</u>	 <u>\$ -</u>
<b>Funded status</b>		
Underfunded status at June 30	<u>\$ (2,948,835)</u>	<u>\$ (2,879,589)</u>
<b>Amounts recognized in the statements of financial position consist of:</b>		
Noncurrent assets	\$ -	\$ -
Current liabilities	112,000	115,000
Noncurrent liabilities	<u>2,836,835</u>	<u>2,764,589</u>
 Net amount recognized	 <u>\$ 2,948,835</u>	 <u>\$ 2,879,589</u>
<b>Amounts not recognized as components of net periodic benefit cost consist of:</b>		
Unrecognized prior service cost	\$ -	\$ (99,037)
Unrecognized net gain	(1,628,967)	(1,802,709)
Unrecognized net transition obligation	<u>32,184</u>	<u>64,369</u>
 Net amount not recognized	 <u>\$ (1,596,783)</u>	 <u>\$ (1,837,377)</u>
<b>Net periodic post retirement benefit expense for the year ended June 30 is comprised of the following:</b>		
Service cost	\$ 47,195	\$ 41,516
Interest cost	126,780	131,537
Net amortization and deferral	<u>(260,366)</u>	<u>(310,680)</u>
 Net periodic benefit cost	 <u>\$ (86,391)</u>	 <u>\$ (137,627)</u>

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

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**NOTE 12 - EMPLOYEE BENEFIT PLANS (cont.)**

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The University expects to contribute approximately \$180,000 to its postretirement plan in 2015. These payments have been estimated based on the same assumptions used to measure the University's benefit obligation. Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year Ending June 30:		
2015	\$	111,637
2016		121,251
2017		125,742
2018		127,614
2019		126,822
2020 - 2024		672,650

The estimated interest cost, service cost, net loss and expected benefits paid for the year ended June 30, 2015, and the estimated benefit obligation at June 30, 2015 are as follows:

<b>Change in projected benefit obligation</b>		
Benefit obligation at July 1, 2014	\$	2,948,835
Interest cost		122,177
Service cost		43,926
Actuarial gain		(30,692)
Expected benefits paid		<u>(86,768)</u>
Projected benefit obligation at June 30, 2015	\$	<u>2,997,478</u>

The above assumptions and calculations are based on information as of June 30, 2014 and 2013, the measurement dates for the Plan. The accrued benefit cost represents the full obligation for the retirees and the current service cost for eligible employees at June 30, 2014. A 10% rate of increase in the per capita costs of covered health care benefits was initially assumed, decreasing 0.5% per year to an ultimate level of 5%. A discount rate of 4.5% was used to determine the accumulated postretirement benefit obligation for 2014 and 2013.

Increasing the assumed health care cost trend rate by one percentage point would increase the accumulated post-retirement benefit obligation as of June 30, 2014, to \$3,202,346 and the aggregate of the service and interest cost components of net periodic post-retirement benefit costs for 2014 to approximately (\$38,000).

It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material impact on the financial statements.

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**NOTE 13 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE**

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The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2014 and 2013, student loans receivable represented approximately 1.5% of total assets.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 13 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE (cont.)**

At June 30, 2014 and 2013, student loans consisted of the following:

	<u>2014</u>	<u>2013</u>
Federal government programs	\$ 3,998,444	\$ 3,961,672
Institution programs	440,800	487,240
	<u>4,439,244</u>	<u>4,448,912</u>
Less allowance for doubtful accounts:		
Beginning of year	(305,885)	(344,320)
Write-offs	(480)	38,435
End of year	<u>(306,365)</u>	<u>(305,885)</u>
Student loans receivable, net	<u>\$ 4,132,879</u>	<u>\$ 4,143,027</u>

Funds advanced by the Federal government of \$3,576,528 and \$3,587,212 at June 30, 2014 and 2013, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

A student loan receivable is considered to be delinquent if any portion of the receivable balance is outstanding for more than 60 days after the billing date. At June 30, 2014 and 2013, the following amounts were past due under student loan programs:

	<u>Amounts Past Due</u>			
	<u>Less than 240 days</u>	<u>Less than 2 years</u>	<u>More than 2 years</u>	<u>Total</u>
June 30,				
2014	\$ 68,926	\$ 12,680	\$ 172,121	\$ 253,727
2013	36,751	-	190,841	227,592

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 14 - ENDOWMENTS**

The University's endowment consists of approximately 260 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The University's governing board has interpreted the State of Washington enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. As a result of this interpretation, the University has not changed the way permanently restricted net assets are classified. See Note 1 for further information on net asset classifications.

The remaining portion of the fund, which consists of earnings and gains/losses from the investment of such funds net of expenditures, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment fund
- (2) The purposes of the University and the endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation or deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the University
- (7) The investment policy of the University

The following table summarizes endowment net asset composition by type of fund as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 40,360,787	\$ 71,550,960	\$ 111,911,747
Board-designated endowment funds	\$ 14,023,340			14,023,340
<b>Total endowment net assets</b>	<b>\$ 14,023,340</b>	<b>\$ 40,360,787</b>	<b>\$ 71,550,960</b>	<b>\$ 125,935,087</b>

The following table summarizes endowment net asset composition by type of fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 30,348,444	\$ 66,221,527	\$ 96,569,971
Board-designated endowment funds	\$ 11,510,968			11,510,968
<b>Total endowment net assets</b>	<b>\$ 11,510,968</b>	<b>\$ 30,348,444</b>	<b>\$ 66,221,527</b>	<b>\$ 108,080,939</b>

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 14 - ENDOWMENTS (cont.)**

Change in endowment net assets for June 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2013	\$ 11,510,968	\$ 30,348,444	\$ 66,221,527	\$ 108,080,939
Investment return:				
Investment income	157,488	943,531		1,101,019
Net appreciation - realized and unrealized	<u>1,868,979</u>	<u>11,497,371</u>		<u>13,366,350</u>
Total investment return	2,026,467	12,440,902		14,467,369
Change in value of assets held in trust by others		61,919	1,181,581	1,243,500
Contributions		73,515	4,147,852	4,221,367
Transfers in and matured deferred gifts	901,561			901,561
Appropriation of endowment assets for expenditure	<u>(415,656)</u>	<u>(2,563,993)</u>		<u>(2,979,649)</u>
Endowment net assets, June 30, 2014	<u>\$ 14,023,340</u>	<u>\$ 40,360,787</u>	<u>\$ 71,550,960</u>	<u>\$ 125,935,087</u>

Change in endowment net assets for June 30, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2012	\$ 10,474,075	\$ 24,433,698	\$ 63,962,295	\$ 98,870,068
Investment return:				
Investment income	159,328	1,004,650		1,163,978
Net appreciation - realized and unrealized	<u>1,105,406</u>	<u>6,921,056</u>		<u>8,026,462</u>
Total investment return	1,264,734	7,925,706		9,190,440
Change in value of assets held in trust by others		29,118	816,687	845,805
Contributions		65,231	1,076,633	1,141,864
Transfers in and matured deferred gifts	173,233	204,612	365,912	743,757
Appropriation of endowment assets for expenditure	<u>(401,074)</u>	<u>(2,309,921)</u>		<u>(2,710,995)</u>
Endowment net assets, June 30, 2013	<u>\$ 11,510,968</u>	<u>\$ 30,348,444</u>	<u>\$ 66,221,527</u>	<u>\$ 108,080,939</u>

**Return Objectives and Risk Parameters** - The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that exceed the 4.5% spending rate plus the rate of inflation as measured by the Consumer Price Index (CPI) for urban consumers while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average annual rate of approximately 8% to 9% annually. Actual returns in any year may vary from this amount.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

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**NOTE 14 - ENDOWMENTS (cont.)**

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**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - The University has a policy of appropriating for distribution each year approximately 4.5% of its endowment fund's average fair value over the prior three years through the fiscal year-end preceding the fiscal year in which the distribution is planned. The University's spending policy follows a model that includes the Higher Education Price Index (HEPI) which requires annual adjustments based on changes in the costs of education. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 4% to 5% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

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**NOTE 15 - CONCENTRATIONS**

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Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, receivables and investments. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. The majority of the University's cash and cash equivalents are on deposit with a single bank. Investments are diversified in order to limit credit risk. Student notes and receivables are due from a variety of sources concentrated primarily in the northwestern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

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**NOTE 16 - COMMITMENT**

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The University rents space in Spokane for its downtown campus, which houses some of its graduate and adult undergraduate programs. The lease term is through July 2017. Rent expense was approximately \$184,000 and \$175,000 in 2014 and 2013, respectively. Future minimum lease commitments are as follows: 2015 - \$190,000, 2016 - \$195,000 and 2017 - \$201,000.

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**NOTE 17 - RELATED PARTY TRANSACTIONS**

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The University has been conducting business transactions with Avista Utilities for many years; in April 2011, an officer of Avista Utilities was selected as a member of the University Board of Trustees. The University paid approximately \$1,200,000 to Avista Utilities for electricity and natural gas during each of the years ended June 30, 2014 and 2013.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

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**NOTE 18 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

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Supplemental cash flow information for June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Interest paid (net of capitalized interest)	\$ 4,018,300	\$ 3,528,204
Capitalized interest	225,927	771,920
Noncash investing and financing activities		
Construction in progress included in accounts payable	715,893	933,864

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**NOTE 19 - ALLOCATION OF EXPENSES**

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Expenses by natural classification for the years ended June 30 were as follows:

	<u>2014</u>	<u>2013</u>
Salaries and wages	\$ 32,579,402	\$ 31,106,654
Benefits	8,382,288	8,083,192
Travel, professional development and cultivation	2,185,829	2,213,981
Materials and supplies	1,358,361	2,621,616
Maintenance of facilities and equipment	3,623,023	3,456,732
Utilities, insurance and taxes	4,031,674	3,953,630
General services, postage, print shop, board bill	10,541,363	9,733,534
Interest	4,017,473	3,510,280
Depreciation, amortization and accretion	7,400,010	6,978,703
Other expenses	198,333	101,853
Total operating expenses	<u>\$ 74,317,756</u>	<u>\$ 71,760,175</u>

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**NOTE 20 - SHORT-TERM CREDIT ARRANGEMENT**

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The University has an unsecured \$3,000,000 line of credit through Wells Fargo Bank. Borrowings under this line of credit bear interest at an annual rate of 1.50% above the Daily One Month LIBOR in effect from time to time. Interest is payable on the last day of each month. Principal, and any unpaid interest, is due on January 2, 2015. In addition, the agreement requires the University to comply with certain covenants. At June 30, 2014 and 2013, there were no outstanding borrowings under this arrangement.

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2014 and 2013

**NOTE 21 - CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

The consolidated statement of financial position as of June 30, 2014 is presented below:

	Whitworth University	Whitworth Costa Rica Limited	Foundation	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,406,793	\$ 25,641	\$ 429,287	\$ 5,861,721
Note receivable (payable)	2,983,932	(2,983,932)		
Student accounts receivable, net	917,409			917,409
Contributions receivable, net	7,182,385			7,182,385
Other receivables	1,034,222	76		1,034,298
Other assets	1,110,834			1,110,834
Student loans receivable, net	4,132,879			4,132,879
Long-term Investments	119,521,766		20,157,793	139,679,559
Deposits held by trustee	7,041,144			7,041,144
Deferred debt acquisition costs	715,729			715,729
Land, buildings and equipment	104,990,685	2,972,257		107,962,942
Assets held in trust by others	20,436,512			20,436,512
<b>Total Assets</b>	<b>\$ 275,474,290</b>	<b>\$ 14,042</b>	<b>\$ 20,587,080</b>	<b>\$ 296,075,412</b>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable and other liabilities	\$ 1,971,265	\$ 3,188		\$ 1,974,453
Accrued payroll and related benefits	6,764,798			6,764,798
Student deposits	2,007,974			2,007,974
Deferred revenue	2,202,164			2,202,164
Asset retirement obligations	891,272			891,272
Accrued interest payable	1,058,281			1,058,281
Long-term debt	79,109,279			79,109,279
Annuities payable			\$ 10,878,773	10,878,773
Federal student loan funds	3,576,528			3,576,528
<b>Total Liabilities</b>	<b>97,581,561</b>	<b>3,188</b>	<b>10,878,773</b>	<b>108,463,522</b>
<b>Net Assets</b>				
Unrestricted	58,422,630	10,854	2,365,815	60,799,299
Temporarily restricted	46,847,919		1,352,103	48,200,022
Permanently restricted	72,622,180		5,990,389	78,612,569
<b>Total Net Assets</b>	<b>177,892,729</b>	<b>10,854</b>	<b>9,708,307</b>	<b>187,611,890</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 275,474,290</b>	<b>\$ 14,042</b>	<b>\$ 20,587,080</b>	<b>\$ 296,075,412</b>

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of and for the Years Ended June 30, 2014 and 2013

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**NOTE 22 - SUBSEQUENT EVENTS**

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In the spring of 2014, the University decided to put the Costa Rica program on hold for fall term of fiscal 2015 in order to conduct a full financial and academic assessment of the program. A task force was designated to conduct the assessment of the Costa Rica center operations during the summer of 2014. At the end of September 2014, the task force has recommended that the University sells the Costa Rica property and explores the possibility to continue the academic program in Costa Rica with a business model that does not require the ownership and operation of a center in that country. The Board of Trustees and the administration will be evaluating these recommendations for action in the coming months of 2014. Any resulting transactions will be reflected in future financial statements.

The University has evaluated subsequent events through October 2, 2014 which is the date that the financial statements were issued.